

**REPORT OF THE AUDITOR-GENERAL TO THE NORTH WEST PROVINCIAL
LEGISLATURE AND THE COUNCIL ON THE FINANCIAL STATEMENTS AND
PERFORMANCE INFORMATION OF RATLOU LOCAL MUNICIPALITY FOR THE YEAR
ENDED 30 JUNE 2008**

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I was engaged to audit the accompanying financial statements of Ratlou Local Municipality which comprise the statement of financial position as at 30 June 2008, statement of financial performance and cash flow statement for the year then ended, and other explanatory notes and the accounting officer's report, as set out on pages xx to xx...

Responsibility of the accounting officer for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the entity-specific basis of accounting as set out in accounting policy note 1. This responsibility includes:
 - designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error
 - selecting and applying appropriate accounting policies
 - making accounting estimates that are reasonable in the circumstances.

Responsibility of the Auditor-General

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 read with section 4 of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA), my responsibility is to express an opinion on these financial statements based on my audit in accordance with the International Standards on Auditing and *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008*. Because of the matters discussed in the Basis for disclaimer of opinion paragraphs, however, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis of accounting

4. The municipality's policy is to prepare financial statements on the entity-specific basis of accounting as set out in accounting policy note 1.

Basis for disclaimer of opinion

5. Property, plant and equipment

The completeness and existence of fixed assets could not be ascertained due to the following:

- 5.1. Some assets were physically verified from the floor but were not recorded in the fixed assets register.

- 5.2. There was a discrepancy between the fixed asset register and the general ledger amounting to R8 670 953.
- 5.3. Supporting documentation for the redemption account amounting to R196 792 203 could not be provided for audit.
- 5.4. The value of fixed asset additions as per the fixed asset register differed from the additions in the financial statements by an amount of R45 935 697.
- 5.5. Disposals of motor vehicles of R990 740 were recorded in the fixed asset register but not recognised in the general ledger.

2 6. **Accounts payables**

I could not confirm the completeness and accuracy of journals processed amounting to R1 027 501, as no supporting documentation was available.

7. **Non-routine journals**

I could not confirm the completeness and accuracy of non-routine journals processed amounting to R13 140 039 relating to prior year misstatements, as no supporting documentation was available.

3 8. **Cash flow statement**

I was unable to ascertain accuracy and fairness of presentation and disclosure of the cash flow statement, due to supporting documentation not made available for audit.

The entity's records did not permit the application of alternative audit procedures.

4 9. **Capital commitments**

I was unable to obtain sufficient appropriate audit evidence to verify the existence, accuracy and completeness of capital commitments disclosed in note 20 to the financial statements at R24 123 093, due to supporting information not being submitted for audit.

Disclaimer of opinion

10. Because of the significance of the matters described in the basis for disclaimer of opinion paragraphs, I have been unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements of Ratlou Local Municipality. Accordingly, I do not express an opinion on the financial statements.

OTHER MATTERS

I draw attention to the following matters that are ancillary to my responsibilities in the audit of the financial statements:

11. **Internal control**

Section 62(1)(c)(i) of the MFMA states that the accounting officer must ensure that the municipality has and maintains effective, efficient and transparent systems of financial

and risk management and internal control. The table below depicts the root causes that gave rise to the inefficiencies in the system of internal control, which led to the disclaimer of opinion. The root causes are categorised according to the five components of an effective system of internal control. In some instances deficiencies exist in more than one internal control component.

Reporting item	Control environment	Assessment of risks	Control activities	Information and communication	Monitoring
Property, plant & Equipment	✓		✓		✓
Accounts Payables			✓		
Non-routine journals	✓				
Cash flow statement			✓		
Capital commitments	✓				✓
<p><u>Control environment:</u> establishes the foundation for the internal control system by providing fundamental discipline and structure for financial reporting.</p> <p><u>Risk assessment:</u> involves the identification and analysis by management of relevant financial reporting risks to achieve predetermined financial reporting objectives.</p> <p><u>Control activities:</u> policies, procedures and practices that ensure that management's financial reporting objectives are achieved and financial reporting risk mitigation strategies are carried out.</p> <p><u>Information and communication:</u> supports all other control components by communicating control responsibilities for financial reporting to employees and by providing financial reporting information in a form and time frame that allows people to carry out their financial reporting duties.</p> <p><u>Monitoring:</u> covers external oversight of internal controls over financial reporting by management or other parties outside the process; or the application of independent methodologies, like customised procedures or standard checklists, by employees within a process.</p>					

12. Non-compliance with applicable legislation

MFMA

- Contrary to section 21(2)(a) the municipality did not take IDP into account when preparing the budget

- Contrary to section 63(2) - (2) the accounting officer did not take all reasonable steps to ensure that the municipality has and maintains a management, accounting and information system that accounts for the assets of the municipality and a system of internal control of assets, including an asset register.
- Contrary to section 64(2)(e) the municipality failed to maintain a management, accounting and information system that recognises revenue when it is earned and accounts for receipts of revenue, especially direct income.
- Contrary to section 65(2)(e) not all payments due to creditors were settled within 30 days from receipt of an invoice.
- Contrary to section 74 the municipality did not comply with the general reporting obligations as required.
- Contrary to section 124(1) the municipality failed to comply fully as particulars of allowances and benefits of political office-bearers and senior management were not included in the notes to the financial statements.
- Contrary to section 165(2)(b)(iv) the municipality failed to perform a proper risk assessment during the year.

13. Matters of governance

The MFMA tasks the accounting officer with a number of responsibilities concerning financial and risk management and internal control. Fundamental to achieving this is the implementation of certain key governance responsibilities, which I have assessed as follows:

Matter of governance	Yes	No
Audit committee		
• The municipality had an audit committee in operation throughout the financial year.	✓	
• The audit committee operates in accordance with approved, written terms of reference.	✓	
• The audit committee substantially fulfilled its responsibilities for the year, as set out in Section 166(2) of the MFMA.		✓
Internal audit		
• The municipality had an internal audit function in operation throughout the financial year.	✓	
• The internal audit function operates in terms of an approved internal audit plan.		✓
• The internal audit function substantially fulfilled its responsibilities for the year, as set out in Section 165(2) of the MFMA.		✓
Other matters of governance		
• The annual financial statements were submitted for audit as per the legislated deadlines in section 126 of the MFMA.	✓	
• The annual report was submitted to the auditor for		✓

Matter of governance	Yes	No
consideration prior to the date of the auditor's report.		
• The financial statements submitted for audit were not subject to any material amendments resulting from the audit.		✓
• No significant difficulties were experienced during the audit concerning delays or the unavailability of expected information and/or the unavailability of senior management.		✓
• The prior year's external audit recommendations have been substantially implemented.	✓	
Implementation of Standards of Generally Recognised Accounting Practice (GRAP)		
The municipality submitted an implementation plan, detailing progress towards full compliance with GRAP, to the National Treasury and the relevant provincial treasury before 30 October 2007.		✓
The municipality substantially complied with the implementation plan it submitted to the National Treasury and the relevant provincial treasury before 30 October 2007, detailing its progress towards full compliance with GRAP.		✓
The municipality submitted an implementation plan, detailing further progress towards full compliance with GRAP, to the National Treasury and the relevant provincial treasury before 31 March 2008.		✓

OTHER REPORTING RESPONSIBILITIES

REPORT ON PERFORMANCE INFORMATION

14. I was engaged to audit the performance information.

Responsibility of the accounting officer for the performance information

15. In terms of section 121(3)(c) of the MFMA, the annual report of a municipality must include the annual performance report of the municipality prepared by the municipality in terms of section 46 of the MSA.

Responsibility of the Auditor-General

16. I conducted my engagement in accordance with section 13 of the PAA read with General Notice 616 of 2008, issued in *Government Gazette No. 31057 of 15 May 2008* and section 45 of the MSA.
17. In terms of the foregoing my engagement included performing procedures of an audit nature to obtain sufficient appropriate evidence about the performance information and related systems, processes and procedures. The procedures selected depend on the auditor's judgement.
18. I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for the audit findings reported below.

Audit findings (performance information)

19. Non-compliance with regulatory requirements

a) Contents of performance information:

- Contrary to section 38-40 of the MSA and contrary to section 14(2)(a) of the Municipal planning and performance management regulations (GNR796), the municipality had no performance management system or performance audit committee in place throughout the financial year.
- The annual report of the Ratlou Local Municipality did not include the annual performance report of the municipality prepared by the municipality in terms of section 46 of the MSA, as required by section 121(3)(c) of the MFMA.

b) Content of integrated development plan

- The integrated development plan of the municipality did not include the key performance indicators and performance targets determined in terms of its performance management system as required by section 26(i) of the MSA.

APPRECIATION

20. The assistance rendered by the staff of the Ratlou Local Municipality during the audit is sincerely appreciated.

Auditor-General

Rustenburg

30 November 2008



AUDITOR-GENERAL